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New Financial Alternatives in Seeding Entrepreneurship: Microfinance, Crowdfunding, and Peer-to-Peer Innovations

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New financing alternatives, such as microfinance, crowdfunding, and peer-to-peer lending, have expanded rapidly. To date, few studies have investigated the antecedents and consequences of these financing mechanisms. This special issue provides an academic foundation for understanding new financial options that entrepreneurs can now use to start and grow ventures. In the introductory article, we integrate strands of the literature on emerging innovations in entrepreneurial finance and provide a framework for a systematic approach to new research questions. We conclude with a discussion of the six papers in the special issue and demonstrate how they contribute to the framework.

Entrepreneurial finance is rapidly evolving. Whether in mature or developing economies, entrepreneurs are combining traditional debt and equity start-up finance (e.g., friends, family, angel investors, venture capitalists, and occasionally banks) with microfinance (Khavul, 2010), crowdfunding (Schwienbacher, Belleflamme, & Lambert, 2013), peer-to-peer lending, and other financial innovations (Moenninghoff & Wieandt, 2012). Such new approaches to entrepreneurial finance share a number of common features. First, these innovations may have arisen in one part of the world, but they quickly diffused across the globe. For example, microfinance emerged as a solution to a lack of capital for those living in poverty in developing economies, yet it has spread to developed economies where entrepreneurs also find micro loans difficult to secure (Freedman, 2000). Second, new financial alternatives use platform-mediated approaches

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to aggregate many, often small, individual transactions. For example, crowdfunding emerged as a way of leveling the playing field and allowing individual investors an opportunity to pool relatively small amounts of money together in order to meet the funding requirements of new or expanding ventures. As a financial innovation, crowdfunding has diffused from an initial launch in several developed economies and is rapidly spreading across developing economies (World Bank, 2013). Finally, various peer-to-peer networks, both debt and equity, use social networks to harness communities of both entrepreneurs and investors in an effort to improve the efficiency and effectiveness of aggregating and transferring funds. Thus, innovators are designing new financial instruments to provide entrepreneurs with financial services that are otherwise difficult to access (Breedon, 2012).

Alternative forms of entrepreneurial finance are proliferating, yet our understanding of them remains in its infancy. In this special issue, we examine how the expanding choices in financing new ventures are changing the nature of entrepreneurship. Our introductory article builds on existing theoretical foundations to develop a broad framework for thinking about emerging alternatives in entrepreneurial finance. At its core, our framework rests on the proposition that innovations in entrepreneurial finance emerged both as a result of imbalances between the supply and demand for capital and as a consequence of improvements in technology. With each new financial innovation there come ownership, governance, and outcome considerations that are embedded in the institutional context from which they emerge and in which they operate. To push the framework forward, we discuss an agenda for future research and show how the six articles in the special issue fit into the conceptual structure we offer.

A Framework for New Financial Alternatives in Seeding Entrepreneurship

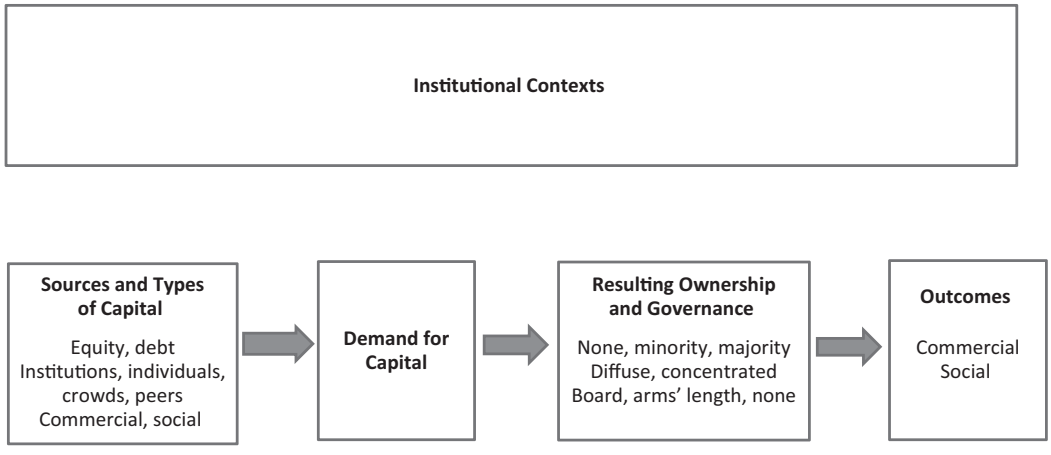
Recent changes in technology and regulation have worked in tandem to make borders more permeable and to lower barriers for diffusion and adoption of innovations. Such changes in technology and regulation have spurred the development of the new financial alternatives for seeding entrepreneurship and have increased the flow of entrepreneurial capital (Financial Conduct Authority, 2014). Entrepreneurs in both developed and developing economies now use microfinance, crowdfunding, and peer-to-peer innovations individually, or in combination, to exploit opportunities they identify but for which more traditional financing is not readily available. In reviewing the literature on entrepreneurial finance, and given the changes afoot, we develop a framework that ties together common questions across the range of new financial alternatives. Figure 1 summarizes the model. We discuss its constituent elements below.

Institutional Contexts

The overarching element that affects each stage in the framework is the institutional setting. New financial alternatives for seeding entrepreneurship emerge from specific institutional contexts, but over time these financial tools adapt and become viable in numerous institutional settings around the world. Microfinance, crowdfunding, and peer-to-peer lending provide excellent examples of new financial alternatives that were originally shaped by their institutional roots but are now diverging and adapting to new settings. Historically, microfinance referred to uncollateralized start-up loans to groups or individuals living in poverty in developing economies (Khavul, 2010). Initially, nongovernmental and not-for-profit organizations offered microfinance as a potential

Figure 1

A Framework for New Financial Alternatives



remedy for limited access to finance—a norm with which entrepreneurs living in poverty grapple on a daily basis. The alternatives to microfinance include informal loans from those in the community but offered at high interest rates (Wahid & Rehman, 2014). Banks and other formal financial institutions have historically avoided serving those in poverty. They had few practical ways to overcome problems of adverse selection, moral hazard, and transaction costs that arose because they could not screen entrepreneurial projects effectively or manage the disbursement of small loans efficiently. In ways that established banks could not, microfinancing organizations developed a system of local borrowing groups and community loan agents and mobilized local social networks to overcome information asymmetries (Amendariz & Morduch, 2005). As microfinance's popularity has grown, its provision has also become a contested terrain (Khavul; Khavul, Chavez, & Bruton, 2013). Banks, savings and loan organizations, for-profit investment funds, insurance companies, and mobile network operators began to vie for a share of the microfinance market. Today, a range of financial services, including debt and equity financing, insurance, savings, and retirement plans all fall under the umbrella of microfinance when they are denominated in small amounts and are available within the institutional context in which microfinance emerged.

Microfinance can vary widely depending on the institutional context. For example, in many developing economies, banking regulations, the extent of informality in the economy, family or kinship structures, and the presence or absence of global organizations all influenced how microfinance emerged and how it has evolved (Khavul, Bruton, & Wood, 2009; Khavul et al., 2013). Microfinance organizations now operate in many developed economies and provide small loans to those entrepreneurs who lack easy access to finance. Moreover, in both developed and developing economies, individuals now have new opportunities to participate in microfinance as microangels and as microlenders themselves and supply capital to others. Finally, with the advent of social media, an increasing number of microfinance organizations have reconfigured their activities to solicit contributions and match investors with entrepreneurs using online platforms. While microfinance emerged under significant institutional constraints, it has since reshaped itself to cross heterogeneous institutional settings.

In a similar fashion, the institutional environment played a decisive role in the emergence of crowdfunding. Crowdfunding uses collective decision making via a social media platform to evaluate and raise financing for new projects or new commercial ventures. Crowdfunding emerged simultaneously in a number of developed economies (e.g., Australia, United Kingdom, Netherlands, and United States). It took root immediately after the global financial crisis when traditional financing for both cultural and commercial ventures dried up. Because arts and entertainment ventures crossed few regulatory boundaries, they were the initial focus of early crowdfunding platforms. Rapidly, crowdfunding models began to differentiate and expand. They moved from offering gifts, rewards, and royalties for those who contributed to arts and entertainment campaigns, to structured loans and equity investments for those who financed entrepreneurs.

After the financial crisis, debt and equity crowdfunding expanded rapidly. Historically low interest rates on savings motivated individuals to participate as lenders in the peer-to-peer debt crowdfunding market, which is now the most widely adopted form of alternative finance. For example, in the United Kingdom, Zopa was the first peer-to-peer lender, but a variation of its lending model now allows individuals to lend not only to other individuals but also to established firms through such platforms as Funding Circle and ThinCats (Pierrakis & Collins, 2013). Peer-to-peer (or peer-to-business) lending platforms are not typically consolidators of funds; instead, the funds go directly from one person to another or from one person to the business. With the exception of pro-social lending, peer-to-peer lending is largely for profit but rests on uncollateralized loans (Duarte, Siegel, & Young, 2012) for which personal guarantees may be necessary. Peer-to-peer lending is established in many developed economies and is gaining recognition in developing economies (Xusheng, 2014).

Equity crowdfunding has grown more slowly than crowdfunded debt financing. In the United Kingdom, equity crowdfunding gathered steam early (with Crowdcube as the first platform), but because of long-standing restrictions on public solicitation for stock it encountered regulatory roadblocks in the United States. The United States is not alone in the relatively slow adoption of equity crowdfunding standards. Countries such as India and Turkey, both with thriving gift and reward crowdfunding, have yet to amend their laws to allow crowdfunded equity investments in businesses. Even in countries where equity crowdfunding is legal, debates still rage over the potential for fraud and the need for investor protection. Finally, because securities regulations vary across countries, strategies for expanding equity crowdfunding platforms across countries often require partnerships and alliances.

In sum, we have shown that the institutional environment for microfinance, crowdfunding, and peer-to-peer lending has had significant effects on the origin, diffusion, and adoption of these new financial alternatives for seeding entrepreneurship in developed and developing economies. As a result, the institutional context should be a critical component of any framework to understand new alternative sources of entrepreneurial finance.

Supply of Capital

The sources of capital available for alternative financial mechanisms can vary widely. For example, more than 100 private equity funds, with more $6.5 billion under management, target microfinance as a social investment strategy (Reille & Glisovic-Mezieres, 2009). Such funds raise capital from banks, foundations, or government agencies, and funnel the money to microfinancing organizations, international agencies, or charities that in turn make loans to entrepreneurs at the base of the pyramid in developing economies

(Bruton, 2010; Khavul & Bruton, 2013). Depending on the regulatory environment, microfinancing organizations may or may not be allowed to collect savings from the individuals to whom they lend. In cases where the law prohibits them from holding the savings accounts, microfinancing organizations establish relationships with banks to hold the deposits of their microfinancing clients. As a result, they do not have their own capital and are forced to take bank loans, which they relend at higher interest rates to their microfinancing clients (Khavul et al., 2013).

In crowdfunding and peer-to-peer lending, individuals supply the financial capital. In this market, Internet-based platforms serve as intermediaries or network orchestrators linking entrepreneurs with potential funders. Crowdfunding platforms primarily rely on the "wisdom of the crowd" in screening new venture offerings and voting with their individual investment pledges for the best ones. The abiding principle of many crowdfunding platforms is the access they provide to average investors to participate in early-stage investing while also giving entrepreneurs access to alternative capital providers. The minimum threshold amounts for investment are kept low in order to allow ordinary investors to take part in the process. In practice, numerous crowdfunding platforms also establish mini-funds to pool and manage their investors' money.

Increasingly, there are also mixed models in which crowdfunding methods are applied to microlending. For example, organizations such as Kiva, the largest microfinancing intermediary, use social media to raise financing from individuals. Kiva aggregates the funds from individuals and places them as blocks with microfinancing organizations, which are then responsible for the disbursement and management of the loans to entrepreneurs (Kiva.org, 2014). Peer-to-peer lending can also involve platforms similar to microfinancing in that individuals directly provide capital to other individuals. Government and corporate accelerators offer a variation of peer-to-peer lending by helping entrepreneurs gain access to modest initial amounts of funding together with mentoring support. Among their many goals is the need to address objectives related to local employment, the creation of technological ecosystems, and corporate innovation (Miller & Bound, 2011). Some accelerators are generic, while others focus on providing targeted support for early-stage ventures in particular sectors (Clarysse, Wright, & Van Hove, 2014).

Demand for Capital

Entrepreneurs prefer those sources of finance that involve giving up less control and require lower servicing costs (Cosh, Cumming, & Hughes, 2009; Vanacker & Manigart, 2010). As such, entrepreneurs are likely to have a first preference for personal financial resources, followed by soft funding sources from family and friends, and often pursue external sources last. The lack of access to capital in both developed and developing economies is one of the critical resource constraints that have driven the demand for alternative sources of financing for early-stage ventures. Although in developed economies entrepreneurs have more financing options than those in developing economies, high-risk entrepreneurial ventures still face an uphill battle in their search for capital. For example, after failing initially to raise money, one entrepreneur recently made headlines as he raised $10.5 million in commitments for a new drinks cooler, in the process breaking Kickstarter's previous records for successful crowdfunding campaigns. Notably, traditional investors considered the product too low tech, while others considered it too risky. In developing economies, access to capital is even more difficult. Typical interest rates on loans for successful small businesses in developing economies can be many times higher than for similar firms in developed economies (Bruton, Khavul, & Chavez, 2011). Even

then, start-up entrepreneurs struggle to secure debt financing (De Castro, Khavul, & Bruton, 2014). Thus, new alternative forms of finance, including microlending, crowdfunding, and peer-to-peer financing, have the potential to bridge the gap between supply and demand for entrepreneurial finance.

Recent work also suggests that entrepreneurs' perceptions about the supply of capital may influence the sources from which they will seek funding (Fraser, Bhaumik, & Wright, 2014). When entrepreneurs perceive that the supply of some types of finance is poor (e.g., the availability of debt particularly during the financial crisis and its aftermath), they may become discouraged from seeking external finance altogether. As a result, in both developed and developing economies, entrepreneurs may perceive that new alternative forms of financing offer them greater access than do the traditional forms of financing.

Ownership and Governance Considerations

What are the implications of the emerging financial alternatives for ownership and governance of new ventures? This remains an open empirical question, but depending on how they are structured alternative new sources of finance (e.g., gift and reward crowdfunding, growing peer-to-peer lending, and even equity crowdfunding) may have limited additional impact on the ownership and governance of new ventures. Gift and reward forms of crowdfunding do not provide the inclusion of donors in the ownership and governance of the firms. Peer-to-peer lending offers primarily short-term debt, which is subordinated appropriately; thus, its effect on governance is constrained. Equity crowdfunding and some accelerators do potentially introduce a large set of new shareholders in the firm. However, shareholders are subdivided into those who do and do not have voting rights, so depending on the structure the number of investors with influence may be limited.

Finally, microfinance encounters a different set of ownership and governance considerations. In developing countries, recipients of microfinancing loans are frequently informal, unregistered, or partly registered firms, but generally without formal title (Bruton, Ireland, & Ketchen, 2012; De Castro et al., 2014). The ownership and governance of informal firms is difficult to influence except through coercion or social pressure when loans are given to groups. Moreover, microfinance organizations often fund entrepreneurs who start their business out of necessity because they lack access to paid employment. Thus, if a good job with steady income becomes available, then many entrepreneurs willingly shut their businesses and move on. Control and strategic decision making in such firms is in the hands of individuals running the firm with limited influence from external suppliers of capital.

Outcomes

In the absence of historical data, performance outcomes of alternative forms of finance remain a source of controversy. Although numerous success stories about microfinance are told (e.g., Westhead & Wright, 2013), scholars and practitioners are raising questions about the effectiveness of microfinance in addressing poverty and seeding sustainable entrepreneurial activity (Amendariz & Morduch, 2010; Harrison, 2013; Isenberg, 2012; Khavul, 2010). The evidence to date suggests that microlending has had limited impact on poverty. A review of the research literature on the effect of microlending in ameliorating poverty found no robust evidence for the success of microlending (Duvendack et al., 2011). More recent analysis also supports this view

(Tarozzi, Desai, & Johnson, 2014), but notes that there are social goals, such as the empowerment of women, that should be considered (Roodman, 2013). However, even in this regard, the evidence is mixed.

Due to the very early stage of the activity, there is even less empirical evidence on the impact of crowdfunding and peer-to-peer lending. Early evidence suggests that a quarter of crowdfunding projects do deliver on time (Mollick, 2014), and reward-based crowdfunding does help support traditional entrepreneurship (Mollick & Kuppuswamy, 2014). Specifically, over 90% of successful projects remained as ongoing ventures for 1–4 years after their campaign, almost a third reported annual revenues of over $100,000 a year since the campaign, and successful projects increased their staffing by 2.2 employees on average (Mollick & Kuppuswamy). Finally, in researching the outcomes of peer-to-peer lending, Duarte et al. (2012) found that borrowers who appear more trustworthy on the basis of the photographs that accompany their requests for funding have better credit scores and default less often.

Agenda for Further Research

The framework in Figure 1 ties together common questions across a range of new financial alternatives and gives a landscape for future research. Here we will explore what directions such research could take. Specifically we will connect the themes from Figure 1 with research that can occur at the macro, organizational, and individual levels. Table 1 summarizes the principal research questions we identify.

Institutional Context

The institutional context is important to understanding how alternative forms of finance emerged and have evolved. Considering the institutional context offers opportunities for research at the macro, organizational, and individual levels. At the macro level, studying the differences between new alternative financial mechanisms may shed light on the processes that give rise to financial innovations across institutional contexts. For example, policy differences associated with governments could impact which financial mechanisms entrepreneurs choose to pursue and may, in the long run, determine their relative availability. Similarly, a core concern for growing entrepreneurial ventures is how the opportunities for entrepreneurs to move through stages of financing vary. For example, developed countries offer a range of financing options at all stages of firm growth. However, in developing economies, financing alternatives are more limited. Thus, if ventures are to survive and prosper, do alternative financing mechanisms open up significant options for them to advance to the next of financing?

Comparative studies at the organizational level could capture differences in the impact of new alternative finance in developing versus developed economies. Researchers could ask how in different institutional settings entrepreneurs use the resources they secure with the help of new financial tools to create resources for organizational success. For example, informal firms may be present in both emerging and developed economies but vary in form and in the impact they may have on an entrepreneur's ability to build an organization for growth. At the organizational level, analysis is warranted into which organizational forms of new alternative finance are available and effective in different institutional contexts.

Finally, at the individual level, we noted above that entrepreneurs who have been discouraged from accessing more conventional forms of finance may turn to new

Table 1

Potential Research Agenda for Alternative Forms of Finance

Level	Institutional context	Supply and types of capital	Demand for capital	Ownership and governance	Outcomes
Macro	How do alternative financing mechanisms in developing and developed economies differ? How does policy encourage the bridge between alternative financing and later stage funding? How aware are entrepreneurs of sources available in different institutional contexts and how do they select?	How does competition and regulation affect the availability, cost, and performance of new alternative forms of finance in different countries and institutional settings? How do the objectives of international agencies vary in their provision of new alternative forms of finance? The nature and extent of support provided by international aid programs in addition to the supplying capital?	To what extent is demand for alternative forms of finance a consequence of finance gaps in traditional sources of funding for entrepreneurship? How does the demand for alternative forms of finance differ across countries?	To what extent and why are alternative forms for finance provided by the public sector and/or incentivized/ facilitated by the private sector? To what extent is public sector provision designed to complement or substitute for private sector provision?	How do the various forms of alternative finance have their greatest entrepreneurial impact? How do the various forms of new alternative finance mechanisms interact with social policies to impact poverty?
Organization	How do the organizational forms of the supply and demand for new alternative finance compared across developing versus developed economies? How do different organizational forms differ in their use of new alternative finance between institutional contexts and what are the key resources for success?	How do nonprofit and for-profit microfinance organizations differ in the ventures they promote? Are there informal forms of these alternative forms of finance? If so, what is their impact? How does technology change the organizational forms in which microfinance is provided?	How do the organizational forms adopted by demanders of alternative forms of finance vary? How do social networking and mobile technologies change the distribution of and access to alternative forms of finance?	What types of accelerators, platforms, etc. are providers of alternative forms of finance generating and how do their operations and strategies differ? What is the role of regulation and its impact on alternative forms of finance? Do for-profit alternative forms of finance operate differently than nonprofits? Do these differences lead to better service for the borrowers? How do alternative forms of finance organizations diversify and manage their portfolios over time? What implications do these diversification actions have for their involvement with entrepreneurs and their ventures over time?	What is the impact and performance of different new alternative forms of finance initiatives and the new ventures they seed? What measures are appropriate for such evaluation? How sustainable are for-profit versus not-for-profit forms of alternative finance providers? What is the role of social networks in entrepreneurial success under these mechanisms?
Individual	How and to what extent do the objectives of alternative financing mechanisms vary in different institutional contexts? To what extent do cognitive factors interact with institutional factors in impacting the different financing mechanisms? How do the networks that impact the different financing mechanisms differ between developed and developing economies?	How do the motivations and cognitive decision processes of individual suppliers of microfinance vary according to the nature of the venture proposed? How do these processes differ from other providers such as business angels?	How do the cognitive aspects of those that use alternative forms of finance differ from those that use other sources of finance? To what extent are entrepreneurs using mew alternative financing mechanisms “discouraged applicants” for other sources?	How do entrepreneurs manage relationships with multiple lenders and investors? What are the roles of trust and agency in microfinance?	What is the relative impact of intrinsic and extrinsic goals on the alternative forms of financing?

alternative finance providers. Yet the relationship between discouragement and choice of alternative financing mechanisms could vary by level of development across debt and equity providers, and across developed, emerging, and midrange economies (Hoskisson, Wright, Filatotchev, & Peng, 2013). Different cognitive processes may confound variations across institutional settings. For example, entrepreneurial orientation in a region may make the impact of institutional context more or less intense. Similarly, the role of networks in different institutional contexts may also impact outcomes and should be explored (Gedajlovic, Honig, Moore, Payne, & Wright, 2013). For example, researchers could ask to what extent is the reliance placed on extended family networks in developing versus developed economies. In addition, while it may not fit neatly into our model, note that institutional contexts affect the spatial dimensions of new alternative forms of finance (Autio, Kenney, Mustar, Siegel, & Wright, 2014; Zahra & Wright, 2011). For example, within large countries, regional variations in regulations may influence the extent and nature of new alternative forms of finance. Preliminary work has considered the geographical implications of crowdfunding (Agrawal, Catalini, & Goldfarb, 2011), but we need further analysis of the spatial consequences of the new financial alternatives.

Supply

As we analyze new alternative sources of finance at the macro, organizational, and individual levels, issues involving the supply of capital raise research possibilities. Starting at the macro level, competition and regulation may affect the availability, cost, and performance of alternative forms of financing. To illustrate, international agencies and charities are typical sources of microfinance at the base of the pyramid. However, the need for accountability and differences across time horizons of aid programs can constrain the role of agencies that administer them. Research is needed to evaluate the extent to which competition and regulation affect the availability, cost, and performance of alternative forms of finance in different countries and across programmatic constraints. Similarly, financing may come with particular objectives and be focused on promoting specific goals, such as health and social welfare (see Miesing, Watts, Siegel, & Briar-Lawson, 2014). This raises questions about the extent to which multiple objectives are either in conflict with or complementary to the entrepreneur's commercial mission. Finally, to be effective, financial support for entrepreneurs must go beyond the business start-up (see Manigart & Wright, 2013, for a review). Analysis is needed of the nature and extent of support provided by international aid programs over and above supplying capital and the implications of such support for entrepreneurship. Another challenge concerns the extent to which the new alternative supply mechanisms provide links for the next stage of venture development. For example, accelerator programs typically last 3–6 months, and entrepreneurs then need to secure additional finance and expertise. The effectiveness of accelerator programs remains an open question when it comes to providing linkages to follow on financing.

At the organization level, heterogeneity within particular forms of alternative finance and how this influences success at raising initial finance are questions worth asking. Moreover, understanding the "wisdom" or "madness" of crowds may be enhanced by recognition of the different objectives and expertise of the providers of finance through different types of crowdfunding platforms. Providers may involve one-off or repeat investors. They may involve individuals with little investment experience or business angels with extensive investment experience. Further research is also required that examines the interaction of angel and crowdfunding finance of early-stage ventures as there is

some emerging evidence to show that a significant proportion of angels now invest alongside crowdfunding (Enterprise Research Centre, 2014).

Similarly, we lack understanding of the supply of for-profit and not-for-profit variants of new alternative finance. The supply of for-profit and not-for-profit types of finance may be aimed at different types of ventures, yet research has not established whether this is the case. There may also be both formal and informal forms of capital. The question that arises, then, is what is the impact of these informal forms of financing? Consistent with Zahra and Wright (2011) and Leyden, Link, and Siegel (2014), the role of social networks also should be explored. Moreover, technological changes, such as the development of online platforms and mobile apps, are revolutionizing the way finance is provided. Potential suppliers may differ in their motivation to fund individual entrepreneurs, depending on the nature of the proposals. Similarly, the extent to which the processes of individual suppliers differ from those used by other providers, such as business angels, warrants further investigation.

Demand

At the macro level, demand for alternative forms of finance may be influenced by entrepreneurs' awareness and perceptions of particular initiatives and how they are marketed. As a result, the extent to which the aggregate demand for new alternative forms of finance is a consequence of shortcomings in the provision of traditional sources of finance for seeding entrepreneurship remains unclear. Put more broadly, how does the demand for alternative financing differ across countries and why?

At the organizational level, those who tap into these new forms of finance may adopt different organizational forms from traditional entrepreneurs. Organizations receiving alternative forms of financing may rely on different forms of networking. This raises questions such as the following: Will family and friends still play a similar core network role if they do not finance the firm? If family and friends networks are not present, what are the types of networks present for firms receiving alternative forms of financing? Given that alternative forms of financing often are driven by technology, will technology, in general, play a different role in firms receiving such financing?

From an individual-level perspective, cognitive factors play an important role in entrepreneurs' demand for finance, especially for bank loans. However, we know little about how cognitive factors influence the demand for new alternative finance in general. On the one hand, entrepreneurs may exhibit loss aversion and as a result be reluctant to borrow. On the other hand, entrepreneurs may feel overoptimistic about their business prospects, and thus overestimate the amount of financing they need. Similarly, some entrepreneurs may be seeking only to establish a lifestyle business or a venture that will contribute socially, while others want to grow their venture commercially and see alternative finance as a stepping-stone. Still other entrepreneurs may wish to retain control of their venture and thus may be reluctant to use external equity finance.

A key cognitive element for entrepreneurs is discouragement. Some entrepreneurs may have been turned down for more conventional sources of finance and perceive its availability as highly limited even though this may not be the case (Fraser et al., 2014). Such discouraged borrowers may turn to newer forms of alternative finance as the only option left available to them. As we have discussed here, the landscape of new alternative forms of finance is heterogeneous, and it may also be the case that there is considerable variation in the behavior of entrepreneurs seeking different forms of this finance, and these differences warrant investigation.

Ownership and Governance

There is little systematic understanding of the ownership and governance aspects of alternative financial mechanisms for seeding entrepreneurship. At the macro level, comparative analysis is needed of public- and private-sector provision of alternative forms of finance for entrepreneurial ventures. Scholars need to better understand if the public-sector provision serves as a complement or substitute for private-sector provision.

At the organization level, there is a need for analysis of the different ownership types of accelerators, platforms, and other mechanisms that exist to enhance the actions of the alternative forms of finance. For example, there is little systematic evidence concerning which type of accelerator is appropriate for different kinds of ventures that have different business models requiring differing amounts and types of support (e.g., capital intensive biotech versus bootstrapping). We also have little systematic evidence on the bridge between the ending of an accelerator program and the next phase of finance. The mentors who provide support to microentrepreneurs at such accelerators could be business angels, who can help play this bridging role.

We have already noted the growth in crowdfunding and peer-to-peer lending and the challenges posed by attempts to regulate equity crowdfunding. Analysis is needed of how to achieve the appropriate balance between encouragement of crowdfunding supply and its regulation. As with accelerator programs, there is also a temporal need to examine how early-stage ventures funded by crowdfunding are able to move beyond the start-up phase, as well as the extent to which crowdfunding is a complement to or a substitute for mainstream early-stage funding. Further, analysis is needed of the extent to which these new alternative forms of finance are coming to replace the traditional "finance escalator" by providing mechanisms for early-stage ventures to scale up their financing through angel syndicates and further crowdfunding rather than passing through venture capital funding stages.

For-profit microfinance institutions may operate differently from nonprofit providers. These differences may or may not lead to better or just a different service for the borrowers. In order to spread risk-return trade-offs, providers of microfinance may also diversify their portfolios over time. Likewise, accelerators may extend their programs to somewhat later stage ventures that are closer to market. What implications does this have for their involvement with entrepreneurs and their ventures over time, and what are the long-term implications for the continued focus of such providers on early-stage ventures? Similarly, policies may vary depending on the extent of desired diversification of the capital providers' portfolio. There is a need to understand the impact of these different diversification policies.

At the individual level, entrepreneurs who access new alternative forms of finance, as only one form of funding among a range of sources, may need to manage relationships with multiple lenders and investors. Researchers should explore how entrepreneurs manage those relationships with different lenders and investors. Further, the presence of these new finance providers may have implications for the willingness of conventional investors to provide funds to these ventures. Finally, the relative importance of trust and agency may vary by types of new alternative finance mechanisms and across different institutional contexts.

Outcomes

Due to the challenges in accessing reliable data to undertake impact studies, assessing the outcomes of new alternative finance on seeding entrepreneurship is challenging. At the macro level, comparative analysis is needed of how different forms of new alternative

finance have the greatest entrepreneurial impact. A key element in this examination is to compare if some forms have a greater impact in settings of desperate poverty at the base of the pyramid and others in developed settings. Rather than believing that the impact of these alternative forms of finance is universal, there is a need for a finer grained insight. For example, coupling new alternative finance provision with social services (e.g., health and education) may break down the impact of poverty on those entrepreneurs who utilize such finance.

At the organizational level, most research has focused on financial measures. In the future, measures and methods need to be developed to assess the effectiveness of different forms of new alternative finance initiatives, formal and informal providers, and the new ventures they seed. For example, while microfinance may not generate large numbers of firms that hire new employees or that generate high profits, they may have an important impact on the lifestyle of the family in key domains, such as calorie intake by the family. Additionally, the impact in terms of sustainability may differ between for-profit and not-for-profit providers, as well as different forms of new alternative finance providers, such as accelerators and crowdfunding. Finally, there is a need to understand the impact of social networks on the success of different borrowers.

At the individual level, studies are needed on the relative impact of intrinsic and extrinsic rewards on the alternative forms of finance. Roodman (2013) notes that intrinsic rewards—such as satisfying altruistic urges—drive microlending and other alternative forms of finance. There is a need to better understand how such different patterns of rewards influence those associated with the financing, whether providing the financing or using it, and impact the outcomes observed.

Papers in the Special Issue

The papers presented in the special issue are summarized in Table 2. Papers were reviewed according to usual *ETP* guidelines. The final six papers chosen underwent multiple rounds of both reviewer- and editorial-directed revision.

The papers address a range of topics, theories, data, and methods within our broad research framework. The papers extend the theoretical lenses hitherto applied to seeding entrepreneurship by examining new financial alternatives. For example, the literature on microfinance so far has employed agency theory to explain the classic group lending processes, prospect theory to explain the risk preferences of entrepreneurs, social capital theories to explain networks on which entrepreneurs rely, and institutional theory to explain the emergence and evolution of different forms of new alternative financial instruments. While Colombo, Franzoni, and Rossi-Lamastra (2014) also adopt a social capital perspective, other papers utilize a signaling approach (Moss, Neubaum, & Meyskens, 2014), resource dependence perspective (Chakravarty & Shahriah, 2014), and the opportunity co-creation perspective (Sun & Im, 2014). By contrast, two papers focus on a more cognitive approach to understanding the behavior of entrepreneurs seeking new alternative forms of finance (Allison, Davis, Short, & Webb, 2014; Cholakova & Clarysse, 2014).

The papers in this special issue also present global empirical evidence on this phenomenon. The papers adopt a variety of methodological and statistical approaches. Some of the papers utilize data from crowdfunding platforms such as Kiva (Allison et al., 2014; Moss et al., 2014) and Kickstarter (Colombo et al., 2014), while other papers focus on microfinance data relating to owners of small businesses in a developing economy (Chakravarty & Shahriah, 2014). The study by Cholakova and Clarysse (2014) employs

Table 2

Summary of Papers in the Special Issue

Authors	Research questions	Theoretical perspective	Context, data, and methods	Key findings
Moss et al.	–Are ventures more likely to receive funding and repay the loan if they signal a virtuous orientation or an entrepreneurial orientation in their loan descriptions?	Signaling perspective	Microlending through a crowdfunding platform Kiva 400,000 loans 2006–2011	–Ventures are less likely to be funded if they signal VO dimensions of conscientiousness, courage, empathy, and warmth. –Ventures that signal VO dimensions of conscientiousness, courage, warmth, and zeal are less likely to repay their loans, and when they do repay them they tend to be repaid less quickly. –Ventures that signal EO dimensions of autonomy, competitive aggressiveness, and risk taking are more likely to get funded. –Ventures that signal the EO dimension of proactiveness are less likely to repay the loan.
Allison et al.	–How do intrinsic and extrinsic cues embedded within entrepreneurial narratives affect the time needed to fund a microloan?	Cognitive evaluation theory and self-determination theory	Microlending through crowdfunding Kiva 36,665 loans	–Greater profit and risk-taking language is associated with increase in time needed to fund a microloan. –Greater degree of human interest language decreases the time needed to fund a microloan. –Overall intrinsic language is stronger in its effect on time to funding than overall extrinsic language.
Colombo et al.	–What is the role of early capital and early backers in the success of crowdfunding campaigns? –What is the role of internal social capital in attracting contributions in the early days of a campaign?	Social capital	Crowdfunding Kickstarter Data from 669 projects in design technology, film and video, and videogames. Projects followed through life cycle.	–Internal social capital is fundamental to attracting capital and backers in the early stage of campaign. –Early contributions are closely associated with reaching funding targets. –The effect of internal social capital is fully mediated by the amount of early capital and number of backers.

Table 2

Continued

Authors	Research questions	Theoretical perspective	Context, data, and methods	Key findings
Sun and Im (2014)	–How do various stakeholders engage together to reduce interest rates under a shared mission?	Opportunity co-creation perspective	MIX data 1,153 MFIs across 93 countries 2003–2011	–Larger borrower communities have lower interest rates. –Proportion of women in the community is positively related to interest rates. –Relationship between interest rate and proportion of women depends on the rule of law. Interest rates are lower in countries with strong versus weak rule of law. –Loan portfolio risk and interest rates are negatively related. Strong rule of law attenuates this relationship. –The more loan officers an MFI hires relative to the number of employees it has, the more it will increase interest rates in the next year.
Chakravarty and Shahriah	–Under what conditions do heterogeneous groups emerge in group-based microcredit?	Resource dependence theory	Bangladesh Microfinance Joint liability groups Frames field experiment method Data from 480 owners of small businesses from randomly selected villages	–Heterogeneous joint liability groups are formed when risky borrowers make side payments to safe borrowers. –Side payments are akin to insurance premiums—Heterogeneous groups may do more peer monitoring than homogeneous groups given the presence of risky borrowers.
Cholakova and Clarysse	How does a change in the type of incentives offered when soliciting funding affect individuals' willingness and intrinsic motivation to finance a venture?	Warm glow and cognitive evaluation theories	Netherlands Survey and experimental 149 investors from a crowdfunding platform	–Nonfinancial motivators (intrinsic factors) are not significant in predicting a pledge, but the desire to collect reward was. –The more people pledged in the past, the more likely they are to keep the pledge. –Under specific conditions, financial motivator is a positive predictor of investing for equity.

EO, entrepreneurial orientation; MFI, microfinance institution; VO, virtuous orientation.

experimental methods. Statistical approaches range from econometric analyses of large-scale databases to simple quantitative analyses of qualitative and experimental data.

The papers presented here begin to address issues raised by our research framework and agenda for further research. Four papers focus on aspects of crowdfunding in developed economies. Moss et al. (2014) illustrate how the signaling of different demand-side characteristics of seekers of microlending through crowdfunding can influence the willingness of suppliers to provide funds. Distinguishing between ventures that signal a virtuous orientation or an entrepreneurial orientation, they find that ventures are less likely to receive funding if they signal various dimensions of virtuous orientation and less likely to repay loans. By contrast, ventures that signal various entrepreneurial orientation dimensions are more likely to get funded, but even here those that signal proactiveness are less likely to repay the loan. Using a subset of the same Kiva data set as Moss et al., Allison et al. (2014) find differences in the time suppliers take to provide a microloan, depending upon whether demanders of finance indicate profit and upon the presence of risk-oriented or human interest language in their application. Cholakova and Clarysse (2014) show that the willingness of individuals to supply crowdfunding varies with a change in the type of incentives offered by demanders. Nonfinancial motivators are not significant in predicting a pledge but the desire to collect rewards is. Moreover, under specific conditions, a financial motivator is a positive predictor of investing in equity.

We noted that the social capital that entrepreneurs derive from their networks may be particularly important and distinctive in enabling those entrepreneurs demanding new alternative finance to raise the funding they need. Colombo et al. (2014) shed interesting light on this issue by showing that internal social capital is important in attracting capital and backers at an early stage in crowdfunding campaigns, and that this in turn is central to an entrepreneur's ability to raise target levels of funding.

The remaining papers explore demand and ownership aspects in different contexts. Group behavior can play an important role in accessing funding. Sun and Im (2014) examine how various stakeholders engage together to reduce interest rates in applying to microfinance institutions across 93 countries. They show that larger borrower communities have lower interest rates but that the proportion of women in the community is positively related to interest rates. However, they also show that the nature of the institutional context matters since the relationship between interest rate and the proportion of women depends on whether or not there is a strong rule of law. In contrast, Chakravarty and Shahriah (2014) conduct a field experiment in Bangladesh to examine how heterogeneous joint liability groups can come together to obtain microcredit. The study shows that risky borrowers make side payments to safe borrowers as a form of insurance premium. They also highlight a governance role as such heterogeneous groups may do more peer monitoring than homogeneous groups given the presence of risky borrowers.

Conclusions

In this introductory article, we have developed a framework to analyze new financial alternatives to seed entrepreneurship. We utilized this framework to develop an agenda for future research and within which we have situated the contributions to this special issue. The articles presented in this special issue cover only a subset of the elements of the framework we outline in Figure 1 and the research agenda we lay out in Table 1. Our hope is that the foundation we have laid in this article and special issue will provide the basis for substantial further scholarly effort on the role of new financial alternatives in seeding entrepreneurship.

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